THE IVY NETWORK CORPORATION
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May 11, 1971

TO ALL MEMBER STATIONS:

Attached you will find an extract from a recent issue of "Advertising Age", one of the many periodicals that comes into the Ivy office.

I thought it would interest many of you, in that it sheds some light on the most mysterious of all Ivy animals -- "cash flow".

You can see how wide-spread this "problem" or "practice" is. I want to point out again why and how we have solved it.

1) The "Retained Liability" fund insures us sufficient working capital to pay off all our debts promptly. By this we mean that all stations are quickly and fully paid for all advertising run, regardless of what lags develop between Ivy and the Agency.

2) We ourselves have built-in lags to compliment this practice. We make station payments three times a year, thus allowing a short but sufficient time for the natural flow of cash from Agencies to build up to levels whereby the station payments do not affect the running of the Corporation.

3) We deal with reliable Agencies who, for the most part, pay us promptly.

If you have any questions on this, or other matters, please get in touch.

Remember, it is sound business practice like this, and co-operation among the member stations, that has allowed Ivy to survive and grow for over twenty years!

Sincerely,

Sandy

SLM:kk

S.L. Maier

Advertising Age

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Tv has its own back office mess

Advertiser-agency slow pay drive quickens

By FRED DANZIG and DON GRANT

NEW YORK—The slow pay problem appears to be on the rise in the advertising business and so are efforts to combat it.

Back in 1970, slow pay on the part of agencies and advertisers—and media—helped mark what has been called The Year of the Great Belt Tightening. And now comes a time that might be categorized with the slogan, "Fight Slow Pay with a Check and a Check-up." The check, of course, takes care of the bill. The check-up, hopefully, takes care of problems that arise when the check is detoured on its way to media.

The exec vp of a very major agency told ADVERTISING AGE the other day, "Slow pay is a way of life. It's the way of doing business today. Everyone—clients, agencies, media—tries to maximize the cash flow and this practice is flourishing today. Certain clients miss discount dates and want the discount; agencies give it. Then agencies try to make it up by delaying payment still further. Every management is trying to manage money the best way it can and if it means slow pay, they're doing it."

■ If that sounds tough, how about this, from a man who is a highly regarded pro in the media buying service world: "I'd say, conservatively speaking, there are at least 20 agencies ranging in size from small to fairly large who are bankrupt except for the cash flow of client payments, which they delay forwarding to media. They're living off slow pay. I know that if I was running an ad department, I'd be paying very close attention to this because of its possible disastrous effect on my company's ad program."

(The subject of watching costs is finding new popularity among advertisers. One large company that went the *a la carte* route last year has issued a 44-page manual on advertising to each group manager in the company. Recommended prices: For backgrounding crea-

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Drive against slow pay quickens

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ive teams: Maximum of $25 per hour; for concept work: $50 per hour, tops; for copy, $40 per hour tops; for supervision and coordination of finished elements: $25 per hour, maximum.)

Another leading advertiser, involved in proprietary drugs and other heavy volume packaged goods, sets a payment schedule and sticks to it without regard to day-to-day fluctuations in the money market or any other market. "It's the cost of doing business," said a company official. "Network bills are to be rendered on a certain date and they are paid on a certain date. We have a monitoring program," he added, "where our general internal auditors go to our agencies and see the actual disbursement forms to media, to their vendors and other suppliers. If a large gap appears between the time we sent the check and the time the agency forwarded it, we'll know about it. But we haven't seen any variations from our schedules worth special attention."

■ One network comptroller brought up the point that "intense competition" is playing a part in today's slow pay practices. "The theory is that if you don't like it, you lose the business. And you need the business—even on a slow pay basis," he explained.

"It's well known that a couple of agencies are in some kind of financial problem; they didn't reduce costs in time. We're all nursing them along." He said that in his business experience, slow pay is not confined to advertising. "There always are sharp guys in business—in any business, not just ours," he said.

This executive noted that the standard billing form, recently devised by a number of advertising organizations, and the "last Sunday cutoff" for billing requirements, were steps in the right direction. (While ABC and NBC have central collection procedures, CBS is still preparing one and, as such, is hearing some criticism about its lag.)

■ The tv official said that spot billings continue to be the principal area of billings confusion, but he was confident that industrywide cooperation will solve the problem. "Our back office messes in tv are as bad today as the Wall St. mess of a year ago, but nobody wants to pinpoint it," he said.

One source told ADVERTISING AGE that a Midwest station was preparing to sue in order to collect from slow paying agencies, a move he deemed to be one of pure heroism. From another adman comes word that some advertisers are sending agencies special forms along with their checks for media. The form notes that the check is for such-and-such an order and if not paid to the medium by such-and-such a date, the advertiser is absolved of all liability. "This is supposed to make slow pay a fraudulent act," commented the adman. "It's particularly aimed at the buying services, but many agencies are over-extended these days and they'll be seeing these forms, too," he predicted.

Last year, the New York-based League of Advertising Agencies noted that some of its agency members were attempting to charge slow pay clients interest charges of 1.5% per month after a "normal" interval. Ted Kaufmann, executive director of the League, now reports that results of this experiment were inconclusive. He indicated that the program did not have wide membership support.

■ The American Assn. of Advertising Agencies recently completed an analysis of members' late receivables. Harry Paster, vp, said that while the slow pay problem appears to be on the rise, it is "limited to relatively few agencies." As few as 20 to 25 agencies reported difficulty in collecting from clients. But, Mr. Paster added, "Where it exists it's a really serious problem for these agencies."

Industrial oriented agencies, or agencies that do primarily print advertising, "are being hit a little harder" by the slow pay situation, Mr. Paster noted. But the size of the agency, or its location doesn't seem to matter.

Although it has had "a few complaints" from media, the Four A's is less likely to hear about cases where agencies delay payment to media and use their clients' money for short-term investment opportunities. Because interest rates on borrowed money have declined in recent months it doesn't seem worth while for agencies to "play the money market game," Mr. Paster said.

■ If agencies do get involved in the "money market game" it might be because the media are "sloppy" about regulating their customers, suggested William A. Marsteller, chairman, Marsteller Inc. "People in media say this goes on all the time—and it certainly would be a temptation," Mr. Marsteller said. When he hears complaints of this nature from media he advises them not to accept any business from the tardy agencies, "but they say they don't want to do it, because business has been so slow."

Marsteller, which recently celebrated its 20th anniversary, only became aware of a "slow pay" problem about five years ago, Mr. Marsteller stated. "Our credit losses during the first 15 years were not worth a tinker's dam, but in the last five years they have become much more obvious." As a result, much tighter credit policies have been initiated by the agency, and about a year ago top management ruled that before a general manager would be allowed to accept an account, credit clearances were required and remuneration terms would have to be spelled out.

"It's become a necessity to be damned sure of (a client's) credit these days," said Mr. Marsteller.

■ Al Ries, president, Ries Cappiello Colwell, an advocate of direct billing (thereby eliminating the agency's "funnel" role), maintains that only large agencies, handling large sums of money, could operate profitably in the short-term money market. "If we didn't pay our bills for a couple of months, we wouldn't make two cents," he said.

Mr. Ries' agency has encountered some slow pay problems, like most other agencies. "Traditionally, when an account is profitable, an agency will put up with the situation. This works fine in an expanding economy, but not in a tight economy," he said.

■ A number of advertisers, of course, are paying very close attention. At Magnavox Co., which is now in the thick of an *a la carte* program, Lynn Gillis, assistant to the chairman, has brought in Peter Triolo, a former Ketchum, MacLeod & Grove senior vp in media, to serve as advertising services director. Mr. Triolo will set up procedures for prompt payment of media and evaluating media placement.

"Our policy," explained Mr. Gillis, "is to make sure the good stations that give us good value get paid promptly. I'm out of sympathy with some industry practices—by some media placement people and some agencies—of withholding payment for long periods of time. I've heard of an intermediary taking the client's money at no interest and floating it at 8% for a few months. I've witnessed cases involving this sort of thing that would make your hair stand up. Now, this is not a general indictment of buying services. Major agencies are among the prime offenders.

■ "Our policy," Mr. Gillis continued, "is to have direct contact with the media sources. In print, we place through our house agency and we work directly with magazines. We've suffered nothing in this way. We know where we stand and have garnered more frequency discounts. In broadcast, we contact the station directly and are now doing it routinely. There are two main points. We want affidavits from stations on the cost per spot to Magnavox, no matter who placed the commercial.

"The stations, once they understand how we do business, are happy to supply this. Whether it's J. Walter Thompson or a media service, this copy goes to me. I also ask them if they are paid promptly. I tell them when I paid the agency and I want to know if they are encountering delays. We'll stop doing business with those who delay. With magazines? We have a monthly payment schedule, and we expect to pay promptly.

"In starting our policy of talking with stations directly, we may be doing some buying ourselves, as Quaker Oats does. It's a natural evolution, but this isn't intended to discount the use of buying services. They appreciate our policy, because it gives them added leverage. They can get the best values available for us when everyone knows of this policy. The stations know prompt payment can be expected or else we wouldn't be using that particular service," Mr. Gillis said.

■ Magnavox has been chiefly using Vitt Media International, SFM Media Service Corp. and Independent Media Services Inc. Mr. Gillis said he has installed his checks and balances because, "I want [Magnavox's ad arrangements] totally public." #